

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01

SIL-01 L-02 H-01 ABF-01 AGR-05 FEA-01 DODE-00 PA-01

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC PRIORITY 4540

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6. DESPITE BUYING SPREE OF ISRAELI CONSUMERS LAST WEEK IN ANTICIPATION INCREASE PRICES, INITIAL PUBLIC REACTION TO EMERGENCY ECONOMIC PROGRAM ONE OF SHOCK OVER MAGNITUDE OF PRICE INCREASES FOR STAPLES (INCIDENTS RIOTING REPORTED SEPTTEL). IN RESPONSE TO ALLEGATIONS THAT THE PUBLIC'S REACTION COULD HAVE BEEN LESSENED IF THE POUND HAD BEEN GRADUALLY ADJUSTED OVER THE PAST FEW YEARS, MOSHE SANBAR, GOVERNOR OF THE BANK OF ISRAEL, SAID THAT FLOATING THE ISRAELI POUND WAS NOT OUT OF CONSIDERATION.

7. WE BELIEVE THAT GOVT'S NEW PROGRAM REPRESENTS MEASURES WHICH WERE NECESSARY IN EFFORT TO STEM LOSS OF FOREIGN EXCHANGE RESERVES. DEVALUATION WAS CERTAINLY IN ORDER. FOREIGN EXCHANGE RESERVES HAD DIMINISHED TO ABOUT DOLS 1 BILLION AND PUBLIC ANTICIPATION OF DEVALUATION HAD XACERBATED THE ALREADY BAD CURRENT ACCOUNT SITUATION. MOREOVER, INCREASE IN PRICES OF SUBSIDIZED COMMODITIES LONG OVERDUE. SUBSIDIZED PRICES HAD BEEN OVERTAKEN BY INCREASES IN WORLD MARKET. FOR EXAMPLE, SUGAR WAS SELLING IN ISRAEL FOR ABOUT ONE-THID THE WORLD MARKET PRICE, AND NEW PRICE OF IL 6 (ONE DOLLARL) PER KILOGRAM IS STILL BELOW PRESENT WORLD PRICE. SUBSIDIES WILL
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STILL COST GOI DOLS 411 MILLION ANNUALLY. HOWEVER FINAL IMPACT NEW PROGRAM WILL NOT BE CLEAR UNTIL DECISION REACHED ON EFFECT COST-OF-LIVING ALLOWANCE (COLA). AS REPORTED REF (A), GOI PROPOSES ELIMINATION EFFECTS NEW PROGRAM ON COLA. IF GOI SUCCESSFUL IN THIS PROPOSAL, ISRAELI PRIVATE CONSUMPTION WOULD NOT ONLY BE FROZEN IN 1975 BUT WOULD IN FACT BE REDUCED.

8. HOWEVER, LITTLE, IF ANY, FORMAL CONSULTATION BETWEEN GOVT AND HISTADRUT TOOK PLACE ON SPECIFICS OF NEW PROGRAM. HISTADRUT LEADERS HAD EARLIER ANNOUNCED THAT THEY WOULD DEMAND FULL COMPENSATION FOR COLA INCREASES CAUSED BY NEW ECONOMIC MEASURES, TOGETHER WITH INCREASED FAMILY ALLOWANCES AND SOCIAL SECURITY PAYMENTS. FOLLOWING ANNOUNCEMENT OF EMERGENCY ECONOMIC PROGRAM, HISTADRUT EXECUTIVE BUREAU MET AND CONFIRMED ITS POSITION ON COLA AND INCREASED FAMILY ALLOWANCES.

9. WITH NEED TO CURB PURCHASING POWER A MAJOR ELEMENT IN SUCCESS OF GOI AUSTERITY PROGRAM, CRITICAL CONFRONTATION WITH HISTADRUT OVER COLA ISSUE NOW DEVELOPING. BOTH RABIN AND RABINOWITZ SCHEDULED TO ADDRESS HISTADRUT EXECUTIVE COMMITTEE NOV 12 TO APPEAL FOR HISTADRUT DECISION FOREGOING COLA PAYMENTS ON PRICE INCREASES ATTRIBUTED TO DEVALUATION AND CUTS IN SUBSIDIES. GOVT LIKELY TO CONCEDE TO FURTHER PAYMENTS TO PROTECT LOW INCOME GROUPS FROM IMPACT OF INCREASED PRICES FOR BASIC ITEMS.

10. HISTADRUT LEADERS ARE UNDER SEVERE PRESSURE TO HOLD LINE ON FULL COLA PAYMENTS. ORGANIZED CAMPAIGNS BY PLANT-LEVEL WORKS COMMITTEES, STUNNED BY SHARP RISE IN PRICES, ALREADY UNDERWAY. OPPOSITION FACTIONS IN HISTADRUT-- INCLUDING LIKUD, BLACK PANTHERS AND NEW COMMUNISTS-- WILL VIGOROUSLY OPPOSE CONCESSIONS BY CONTROLLING ALIGNMENT HISTADRUT LEADERSHIP. WHILE THERE ARE DIFFERENCES OF VIEWS WITHIN ALIGNMENT, MAJOR ELEMENTS SEE COLA PAYMENTS, PARTICULARLY IN VIEW OF LIKELY WAGE FREEZE, AS ESSENTIAL TOOL TO MAINTAIN INDUSTRIAL PEACE IN COMING YEAR AND MINIMIZE SOCIAL UNREST. HISTADRUT LEADERSHIP GENERALLY CONCEDE NEED FOR AUSTERITY MEASURES AND REDUCTION IN LIVING STANDARDS. HOWEVER, THEY URGE "QUALITY OF SACRIFICE," WITH GREATER BURDEN SHIFTED TO HIGH INCOME GROUPS.

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11. UNDER PRESENT SYSTEM OF CALCULATING COLA PAYMENTS, MAJOR IMPACT OF DEVALUATION WILL FALL ON COLA PAYMENTS DUE IN JULY, 1975 AND JANUARY, 1976 RATHER THAN COLA PAYMENT DUE JANUARY 1975, ALREADY ESTIMATED AT AROUND 30-32 PERCENT ON FIRST IL 1,000 BASE SALARY. WHILE IT IS TOO EARLY TO ANTICIPATE OUTCOME OF HISTADRUT- GOI CONFRONTATION OVER COLA,

WE BELIEVE SOLUTION WILL BE WORKED OUT, MAINLY THROUGH
SPECIAL PAYMENTS FOR LOW-INCOME GROUPS, MINOR COMPROMISE ON
FORMULA FOR PAYING COLA, AND FURTHER MEASURES TO "TAX THE RICH."
HOWEVER, CRITICAL ECONOMIC PROBLEMS FACING ISRAEL POSE
MAJOR CHALLENGE TO HISTADRUT LEADERSHIP IN EFFECTING
REDUCTION IN LIVING STANDARDS NECESSITATED BY DEFENSE SPENDING
AND WORLD INFLATION. HOW THEY RESPOND TO THIS CHALLENGE WILL
BE CRUCIAL IN DETERMINING THE ULTIMATE EFFECTIVENESS OF GOI'S
EMERGENCY ECONOMIC PROGRAM.
KEATING

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